ANNUAL REPORT FOR 1943

— AND —

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS, MAY 23, 1944

FOR WHICH **PROXY STATEMENT** IS ENCLOSED

DRUGS
WHELAN
CIGARS
UNITED

UNITED CIGAR-WHELAN STORES CORPORATION

Board of Directors

DAVID G. BAIRD
WALTER G. BAUMHOGGER
MICHEL A. BOUVIER
PAUL DUDLEY CHILDS
HOULDER HUDGINS
EDWARD A. LEROY, JR.
WALTER S. MACK, JR.
LESTER G. OTT
DALLAS S. TOWNSEND

Officers

WALTER S. MACK, JR. ..... *Chairman of the Board*
WALTER G. BAUMHOGGER. . *President and Chairman of the Executive Committee*
LESTER G. OTT ..... *Vice President*
EDWARD E. CODY ..... *Vice President and Treasurer*
MICHEL A. BOUVIER ..... *Vice President*
FRANK M. HEAD ..... *Vice President*
JOHN D. BRUCE ..... *Vice President*
HERBERT P. LUCE ..... *Vice President*
HARRY RUBENOFF ..... *Secretary and General Counsel*
PAUL OLSEN ..... *Assistant Treasurer*
HAROLD W. JACOBSEN ..... *Assistant Secretary*

Transfer Agents

Preferred and Common Stock
REGISTRAR AND TRANSFER COMPANY, NEW YORK, N. Y.

Common Stock
REGISTRAR AND TRANSFER COMPANY, JERSEY CITY, N. J.

Common Stock
THE TRUSTS AND GUARANTEE COMPANY, LIMITED, TORONTO, CANADA

Registrars

Preferred Stock
THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

Common Stock
THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

Common Stock
COMMERCIAL TRUST COMPANY OF NEW JERSEY, JERSEY CITY, N. J.

Common Stock
THE TRUSTS AND GUARANTEE COMPANY, LIMITED, TORONTO, CANADA

The Preferred Stock is listed on the New York Curb Exchange • The Common Stock is listed on the New York Curb and Toronto Stock Exchanges • The Five Per Cent Sinking Fund Bonds, due October 1, 1952, are listed on the New York Stock Exchange.

UNITED CIGAR-WHELAN STORES CORPORATION

ANNUAL REPORT

To the Stockholders:

Despite difficulties encountered in operating during wartime, the year 1943 was the most successful year which your Corporation has had since its organization in July 1937. Both sales volume and earnings were the largest in the Corporation's history, as were, also, taxes and amount paid for wages.

Net Sales for the year ended December 31, 1943, amounted to $64,229,721.92,—an increase of 12.3% over the previous year.

Profit transferred to consolidated earned surplus for the year ended December 31, 1943, amounted to $1,411,171.04—an increase of 31.3% over the previous year. A comparative summary of changes in consolidated earned surplus follows:

	1943	*1942*	*Increase*
EARNED SURPLUS since July 1, 1939, at beginning of year	$1,635,030.60	$ 559,884.48	$1,075,146.12
PROFIT transferred to EARNED SURPLUS	1,411,171.04	1,075,146.12	336,024.92
PROFIT on Five Per Cent Sinking Fund Bonds retired	1,249.50	——	1,249.50
	$3,047,451.14	$1,635,030.60	$1,412,420.54
Dividends on Preferred Stock — Paid or declared	477,352.50	——	477,352.50
EARNED SURPLUS since July 1, 1939, at close of year	$2,570,098.64	$1,635,030.60	$ 935,068.04

Consolidated financial statements of your Corporation, certified by Messrs. Price, Waterhouse & Co., independent public accountants, are presented on pages 14 to 19 of the booklet of which this Report is a part.

Notwithstanding the fact that shortages in certain lines of merchandise were severe, we were able to keep our stores and agents reasonably well stocked with goods.

Manpower shortage was our most difficult problem. However, we were able to keep all our stores in operation without serious interruption to the business, and to give our customers reasonably good service.

As has been reported to stockholders in previous annual statements, the Corporation has had a substantial store modernization, rehabilitation, and expansion program in progress since the latter part of 1938, as a consequence of which, at the beginning of 1943, the physical condition of its stores was at a higher level than at any previous time. This, plus improved merchandising practices, was undoubtedly responsible for a

substantial part of the sales gain in 1943. While it is undoubtedly true that the large national income favorably affected our sales volume, it is also true that wartime conditions caused many additional operating expenses which would not have been incurred during a period of more normal operations.

Provision of $1,050,000. for Federal normal income tax and surtax is based on estimated taxable net income and compares with $487,000. for the preceding year. In the opinion of the Management, the parent Corporation has no liability for Federal excess profits taxes for the year 1943, and (except for a net provision of $54,000. for subsidiary companies) the reserve for taxes reflects no liability for such taxes. However, in view of the uncertainties and complexities of the tax laws, the Corporation considers it a conservative policy to make a provision of $300,000. for contingencies.

Total current assets, at the end of 1943, amounted to $13,579,449.57, and total current liabilities were $5,883,591.30. Working capital, at December 31, 1943, amounted, therefore, to $7,695,858.27, an increase of $1,286,485.78 during the year 1943.

On July 15, 1943, the payment of a dividend of $5.00 per share was made to Preferred stockholders. This was the first dividend payment since the Corporation's inception in July, 1937. Two subsequent dividends of $1.25 per share, each, were paid to Preferred stockholders, one on November 18, 1943, and the other on February 1, 1944, and a further dividend of $1.25 a share was declared on March 8, 1944, payable on May 1, 1944.

In 1943, the Corporation's sales of War Bonds and Stamps amounted to approximately $9,000,000. A citation has been received from the Secretary of the Treasury for our services in this respect.

The Management again wishes to express its gratitude and appreciation to the many employees who, in 1943, did such excellent work.

The Management also takes this opportunity to express its sincere good wishes to the Corporation's 1,014 employees who are now in the armed forces, and the fervent hope for their safety and early return.

PROPOSED RECAPITALIZATION

As of May 1, 1944, the accumulated arrearage of dividends on the Corporation's Preferred Stock, after giving effect to the dividend of $1.25 per share payable on that day, will amount to $25 per share. Your Management believes that it is in the best interest of the Corporation, and of all its security holders, that the earnings of the Corporation, after the payment of such currently accruing dividends as the Directors may from time to time approve, be conserved for the development and expansion of the Corporation's growing business rather than utilized for payment of these accumulated dividends in arrears on the Preferred Stock.

At a meeting of the Board of Directors held on March 8, 1944, a proposed change in the capital structure of the Corporation was unanimously approved, the underlying purpose of the change being to capitalize these accrued dividends on a basis deemed to be advantageous to the Corporation and fair and in the interests of all its stockholders.

Subject to the required approval of the stockholders, it is proposed to authorize a new issue of 318,235 shares of Prior Preferred Stock which will have priority, both with respect to dividends and upon liquidation, over the rights of both classes of presently outstanding stock. The new Prior Preferred Stock is to carry quarterly cumulative dividends at the rate of $1.25 per share per annum, to have a par value of $20 per share, and to be entitled upon liquidation or redemption to $25 per share plus accrued dividends. Upon authorization of this Prior Preferred Stock, the holders of the presently outstanding Preferred Stock will be given the right, until July 7, 1944, to exchange their shares for the new Prior Preferred on a basis whereby

they will be entitled to receive five (5) shares of new Prior Preferred Stock, plus $2 in cash, for each one (1) share of present Preferred Stock surrendered to the Corporation for cancellation.

The stated value of the present Preferred Stock is $75 per share, and it is entitled on liquidation or redemption to $100 per share, plus accrued dividends. The five shares of new Prior Preferred Stock to be issued for each share of present Preferred Stock will have an aggregate par value of $100 and will be entitled on liquidation or redemption to $125, plus accrued dividends.

The five shares of new Prior Preferred Stock will carry an aggregate annual dividend rate of $6.25 as against $5 on the one share of present Preferred Stock to be surrendered in exchange.

Except in cases where the law of Delaware otherwise prescribes, all voting rights will be vested exclusively in the holders of the Common Stock. If, however, there shall be at any time an accumulated arrearage of dividends on the new Prior Preferred Stock aggregating $1.87½ per share, the holders of the new Prior Preferred as a class shall have the right to elect two Directors until the arrearage is fully paid or provision made for its payment.

The earnings of the Corporation for the calendar year 1943, after Federal income taxes and all other charges, amounted to approximately 3.5 times the annual dividend requirements on the entire proposed authorized issue of new Prior Preferred Stock.

The Corporation has obtained from the Treasury Department its ruling that, for Federal income tax purposes, no gain or loss to the Preferred stockholders will be recognized upon the contemplated exchange of their stock, except the gain, if any, realized by each stockholder to the extent of the $2 per share in cash to be paid on the exchange. A copy of this ruling will be furnished on request.

Application will be made to list the new Prior Preferred Stock on the New York Curb Exchange.

In addition to the advantages accruing to the Corporation and to the present Preferred stockholders who avail themselves of the right to accept the proposed exchange offer, the Common stockholders will, of course, benefit through the elimination of arrearage on the Preferred Stock. The effect of the exchange on the earned surplus of the Corporation is set forth on page 8 of this booklet.

In the opinion of your Management, the consummation of this recapitalization will substantially benefit the Corporation and all of its stockholders and the Officers and Directors of your Corporation strongly recommend its adoption.

SPECIAL MEETING OF STOCKHOLDERS

Consummation of the proposed recapitalization requires the approval by stockholders of the elimination from the Agreement and Act of Consolidation by which this Corporation was formed, of the present Article IV thereof and the adoption in lieu thereof of a new Article IV. There is attached hereto a notice of a Special Meeting of Stockholders, to be held on May 23, 1944, for the purpose of taking action upon these proposed changes in the Corporation's Charter.

There is also attached a proxy statement giving further and more detailed information relating to the proposed recapitalization, to the Special Meeting of Stockholders, and to the solicitation of proxies therefor, together with a copy of the proposed new Article IV.

In order that the proposed recapitalization may be promptly consummated, and, since the adoption of the proposed amendment to the Corporation's Charter requires the affirmative vote of the holders of two-thirds of the Preferred Stock and of a majority of the Common Stock, stockholders, both Preferred and Common, if unable to be present at the Special Meeting, are urgently requested to sign and return immediately the enclosed proxy.

ANNUAL MEETING

Pursuant to the By-Laws of the Corporation, the Annual Meeting of Stockholders will be held on August 30, 1944. It is contemplated that the notice of such Annual Meeting, together with the proxy statement and form of proxy, will be sent to stockholders on or about July 15, 1944.

OUTLOOK FOR FUTURE

It has been our custom in previous Annual Reports to Stockholders to express opinions as to future trends in sales volume and earnings. However, the year 1944, for reasons with which, we are sure, all stockholders are acquainted, is unpredictable. We prefer, therefore, merely to suggest that the organization which overcame the difficulties encountered in 1942 and 1943 should be able, in 1944, to again do as good a job as the circumstances permit.

As far as it is possible to do so, plans to anticipate post-war conditions have been prepared. These will be put into effect as early as conditions permit. There are many reasons to believe that the post-war prospects of the Corporation are excellent.

WALTER G. BAUMHOGGER,
President.

Dated, April 19, 1944.

UNITED CIGAR-WHELAN STORES CORPORATION

Notice of Special Meeting of Stockholders

April 19, 1944.

To Preferred and Common Stockholders of
United Cigar-Whelan Stores Corporation:

PLEASE TAKE NOTICE that a Special Meeting of Stockholders of United Cigar-Whelan Stores Corporation, a Delaware corporation, will be held at 100 West Tenth Street in the City of Wilmington, State of Delaware, on Tuesday, May 23, 1944, at 11 A.M. for the following purposes:

For Preferred and Common Stockholders:

1. To take action upon a proposal that the Agreement and Act of Consolidation dated as of July 12, 1937, by which the Corporation was formed, be amended by striking out Article IV thereof, and substituting in lieu thereof a new Article IV, of which a copy is attached to and made a part of the Proxy Statement accompanying this notice.

For Common Stockholders:

2. To transact any and all other business that may lawfully come before the meeting.

The record of stockholders entitled to notice of and to vote at such meeting, or at any adjournment thereof, will be taken as of the close of business on April 17, 1944.

By order of the Board of Directors,

HARRY RUBENOFF,
Secretary.

PROXY STATEMENT

A special meeting of the stockholders of United Cigar-Whelan Stores Corporation, a Delaware corporation, will be held at 100 West Tenth Street, Wilmington, Delaware, on the 23rd day of May, 1944, at 11 A.M.

Purpose of the Meeting

The purpose of the meeting is to take action upon a proposal that the Agreement and Act of Consolidation dated as of July 12, 1937, by which the Corporation was formed, be amended by striking out Article IV and by substituting in lieu thereof a new Article IV. The said Agreement and Act of Consolidation is hereinafter called the "Charter." Article IV relates to the number of shares of the authorized capital stock of the Corporation and of the classes thereof, and to the terms and provisions applicable thereto. A copy of the proposed new Article IV, is annexed hereto and made a part hereof.

Present Capital Stock

At the present time the authorized capital stock of the Corporation consists of the following:

67,000 shares of Cumulative Five Dollar Preferred Stock without par value, entitled on dissolution, liquidation or redemption to $100 per share and accrued dividends; and

6,000,000 shares of Common Stock of the par value of 10¢ per share.

The issued capital stock, including all shares issuable under the Plan of Reorganization pursuant to which the Corporation was formed, but excluding shares held in the treasury of the Corporation, consists of the following:

63,647 shares of Cumulative Five Dollar Preferred Stock of the stated value of $75 per share, and having the aggregate stated value of	$4,773,525.00
5,709,716 shares of Common Stock, having the aggregate par value of	570,971.60

The accrued undeclared dividends as of December 31, 1943, on the Preferred Stock amounted to $24.58⅓ per share, aggregating $1,564,655.42 on the entire number of shares outstanding. As of that date the Corporation had a capital surplus of $317,413.35 and an earned surplus of $2,570,098.64.

Proposed New Capital Stock

If the proposed new Article IV of the Charter is adopted, a new class of stock, to be known as Prior Preferred Stock and consisting of 318,235 shares, having an aggregate par value of $6,364,700, will be added to the authorized capital stock of the Corporation. The number of the presently authorized 67,000 shares of Cumulative Five Dollar Preferred Stock, hereinafter called "Preferred Stock," will be reduced to 63,657 shares, consisting of the number of shares now issued, including ten shares held in the treasury of the Corporation. The number of the presently authorized and issued shares of Common Stock will be unchanged by the proposed amendment.

The rights and privileges of the holders of the several classes of the proposed capital stock are hereinafter briefly summarized. For more complete details, reference is made to the text of proposed new Article IV hereto annexed.

Proposed Prior Preferred Stock

The new Prior Preferred Stock will have a par value of $20 per share and will be entitled to receive preferential cumulative dividends, when and as declared by the Board of Directors, payable quarterly at the rate of $1.25 per share per annum. Should the payment of dividends on the Prior Preferred Stock be

in arrears at any time, no dividends may be paid upon the Preferred or the Common Stock until payment of such arrears shall have been provided for. The Prior Preferred Stock may be redeemed in whole or in part at the option of the Corporation, upon 30 days' notice at any time, at the price of $25 per share and all accrued dividends thereon, and in the event of dissolution or liquidation of the Corporation, the holder of each share thereof will be entitled to receive the same amount out of the assets of the Corporation before any payment may be made on the Preferred or Common Stock. The preferences or voting rights of the Prior Preferred Stock may not be changed, altered or impaired, nor may any class or shares of stock, in addition to those authorized in the proposed new Article IV of the Charter, be authorized or issued, which are entitled to priority over or rank on a parity with the Prior Preferred Stock, without the consent of the holders of two-thirds of the Prior Preferred Stock. Should dividends on the Prior Preferred Stock be in arrears in an amount aggregating $1.87½ per share, the holders thereof will be entitled to vote separately as a class for the purpose of electing two members of the Board of Directors of the Corporation until such time as all arrears in dividends and the then current quarterly dividend shall have been paid or set apart for payment. With this exception all voting rights are to be vested in the Common Stock, the holders of which are to be entitled to cast one vote for each share held. The Prior Preferred Stock will have no subscription, preemptive or conversion rights. Reference is made to Note D on page 19 of this booklet concerning indenture limitations on the payment of dividends.

Proposed Modification of Preferred Stock

If the proposed new Article IV shall be adopted, the holders of the Preferred Stock, subject to the rights of the holders of the Prior Preferred Stock, will continue to have the right to cumulative dividends at the rate of $5 per share per annum and the prior right to be paid those dividends, including undeclared dividends in arrears, before any dividends may be paid on the Common Stock and before any Common Stock may be purchased by the Corporation. The right of the Corporation to redeem the Preferred Stock at the price of $100 per share and accrued dividends, and in the event of liquidation or dissolution the right of the holder to receive the same amount per share subject to the rights of holders of the Prior Preferred Stock, before any payments may be made to holders of Common Stock, also remain unaffected by the proposed amendment. The Preferred Stock will remain without par value and with the stated value of $75 per share. The existing provision that, if dividends on the Preferred Stock amounting to $10 or more per share shall be in arrears, the holders thereof as a class shall have the right to elect a majority of the Board of Directors, is omitted from the proposed new Article IV of the Charter. The provision is also omitted from the proposed new Article IV that the consent of the holders of two-thirds of the outstanding Preferred Stock is required to change the preferences or voting rights of the Preferred Stock, or to authorize or issue any class or shares of stock, in addition to those now authorized, which are entitled to priority over or which rank on a parity with the Preferred Stock. Accordingly, upon adoption of the proposed amendment, the consent of the holders of only a majority of this class of stock will be required for such steps. All Preferred Stock that may be exchanged for the new Prior Preferred Stock or otherwise acquired by the Corporation at any time, including ten shares now held in the Corporation's treasury, are required to be retired and may not be reissued. The Preferred Stock does not now have any subscription, preemptive or conversion rights and is granted none by the proposed new Article IV. Reference is made to Note D on page 19 of this booklet concerning indenture limitations on the payment of dividends.

The vote of two-thirds of the holders of Preferred Stock is a prerequisite to the proposed new Article IV becoming effective; but if the said Article does become effective all holders of Preferred Stock will be bound by the terms thereof.

Common Stock

The rights of the holders of Common Stock will be unchanged by the proposed amendment except to the extent that they may be affected by the authorization of the new Prior Preferred Stock, by the changes

to be made in the rights of the holders of the present Preferred Stock, and/or by the exchanges hereafter to be made of present Preferred Stock for new Prior Preferred.

Purpose of the Amendment

A resolution has been adopted by the Board whereby, upon adoption of the proposed amendment by the stockholders and the filing of an appropriate Certificate of Amendment making the proposed amendment effective, the holders of the Preferred Stock will be given the privilege, at their option, of exchanging one share of Preferred Stock for five shares of the new Prior Preferred Stock and $2 in cash. This privilege may be exercised within such period and subject to such extensions of time, if any, as the Board may from time to time determine. The resolution adopted by the Board provides that this privilege of exchanging Preferred Stock may be exercised on or before July 7, 1944. Promptly upon the adoption of the amendment and the filing of the certificate making it effective, further notice will be mailed to holders of Preferred Stock in ample time for them to exercise their option prior to the date so fixed by the Board.

The Board of Directors has declared a dividend on the Preferred Stock of $1.25 per share payable on May 1, 1944, to stockholders of record on April 10th. Upon the payment of this dividend, there will remain accrued undeclared dividends on the Preferred Stock as of May 1, 1944, of $25 per share. The surrender of each share of Preferred Stock in exchange for the new Prior Preferred Stock and the cash payment will be a surrender of all rights of the holder, including the right in respect of undeclared dividends in arrears. However, in the event such an exchange shall be made on or before July 7, 1944, the time limit for such exchange fixed by the Board as above stated, the recipient of the new Prior Preferred Stock to be issued upon such exchange will be entitled to dividends accruing thereon from May 1, 1944.

The number of shares of Prior Preferred Stock authorized is exactly sufficient to permit all of the holders of outstanding Preferred Stock, issued or issuable under said Plan of Reorganization, to exchange their shares upon the terms fixed by the Board as above stated. By the proposed amendment, however, any and all shares of Prior Preferred Stock, which shall not be issued because of failure of some holders of Preferred Stock to exercise the privilege of exchanging their shares, may be disposed of for such consideration as the Board may determine, without offering them to holders of any class of stock. The Management has no present intentions with respect to disposal of said stock.

Changes in Capital Stock and Earned Surplus

If the proposed amendment is adopted and shares of Preferred Stock are exchanged as above set forth, changes in the capital stock and earned surplus of the Corporation will result. Upon exchange of each share of Preferred Stock having a stated value of $75, the five shares of Prior Preferred Stock of the par value of $20 each to be issued upon the exchange will have an aggregate par value of $25 in excess of such stated value, and there will also be paid the sum of $2 in cash. Thereupon earned surplus will be reduced by the said excess of $25 and by the cash payment of $2, and the capital account will be increased by the said excess of $25. Upon the exchange of all outstanding shares of Preferred Stock, with the exception of the ten shares held in the treasury of the Corporation which must be retired, the reduction in the earned surplus will aggregate $1,718,469, of which $1,591,175 will be added to the capital account and $127,294 will be used for the cash payments of $2 for each share of Preferred Stock so exchanged.

Listing of Stock

The Management of the Corporation intends to make appropriate application for the listing of the Prior Preferred Stock on the New York Curb Exchange and for the registration thereof under the Securities Exchange Act of 1934 as amended. The Preferred Stock and the Common Stock as modified and/or affected by the proposed amendment will remain listed on the New York Curb Exchange.

Interests of Directors, Officers and their Associates

None of the directors or officers of the Corporation or of associates of directors or officers has any interest, direct or indirect, in the proposed amendment except as such interest arises by reason of his being a director or officer or a holder of stock of the Corporation.

The following information is furnished with respect to the holdings of stock of the Corporation as of February 29, 1944, by directors and officers:

Name	*Office*	*Preferred Stock Beneficially Held*	*Common Stock Beneficially Held*
DAVID G. BAIRD	Director	None	None
WALTER G. BAUMHOGGER	Director, President and Chairman of Executive Committee	650	5,000
MICHEL A. BOUVIER	Director and Vice President	None	None
PAUL D. CHILDS	Director	None	None
HOULDER HUDGINS	Director	None	None
EDWARD A. LEROY, JR.	Director	None	None
WALTER S. MACK, JR.	Director and Chairman of the Board	None	None
LESTER G. OTT	Director and Vice President	None	5,000
DALLAS S. TOWNSEND	Director	100	None
EDWARD E. CODY	Vice President and Treasurer	None	5,000
FRANK M. HEAD	Vice President	None	5,000
JOHN D. BRUCE	Vice President	None	1,500
HERBERT P. LUCE	Vice President	None	None
HARRY RUBENOFF	Secretary and General Counsel	None	5,000
PAUL OLSEN	Assistant Treasurer	None	None
HAROLD W. JACOBSEN	Assistant Secretary	None	None

The following additional information is furnished with respect to the holdings of stock of the Corporation by associates of directors or officers as of February 29, 1944:

Winfield Baird Foundation, a charitable trust of which Mr. David G. Baird is a trustee, owned beneficially 77,000 shares of Common Stock.

Mrs. Walter G. Baumhogger owned beneficially, jointly with her husband, 5,000 shares of Common Stock which are shown in the above table as the property of Mr. Baumhogger.

Mrs. Michel A. Bouvier owned beneficially 100 shares of Common Stock.

Chain Store Investment Corporation, of which Mr. Paul D. Childs is President, owned beneficially 500 shares of Preferred Stock.

Mrs. Frank M. Head owned beneficially, jointly with her husband, 5,000 shares of Common Stock which are shown in the above table as the property of Mr. Head.

Mrs. Herbert P. Luce owned beneficially 2,000 shares of Common Stock.

Phoenix Securities Corporation, of which Mr. Walter S. Mack, Jr., is President and Mr. Edward A. LeRoy, Jr., is Treasurer, owned beneficially 1,366,209 shares or 23.92% of the outstanding Common Stock and 23,319 shares or 36.63% of the outstanding Preferred Stock.

Mrs. Dallas S. Townsend owned beneficially 50 shares of Preferred Stock.

Financial Statements

Reference is made to the financial statements attached hereto, and to the accompanying opinion of Price, Waterhouse & Co., independent public accountants, including the Consolidated Balance Sheet of the Corporation and its subsidiary companies as of December 31, 1943, and the related Consolidated Statements of Profit and Loss and Surplus and Supplementary Profit and Loss Information for the three years then ended. Additional financial statements, data and information relating to the Corporation and its affairs are on file at the office of the Securities and Exchange Commission, Philadelphia, Pa., and at the office of the New York Curb Exchange, New York, N. Y.

Vote Required for Adoption of Amendment

For the adoption of the proposed amendment the affirmative vote of the holders of two-thirds of the outstanding Preferred Stock and of a majority of the outstanding Common Stock is required.

Solicitation of Proxies and Other Business

The enclosed proxy is being solicited by and on behalf of the management of the Corporation and may be revoked at any time before it is exercised.

The notice of the special meeting of stockholders provides for the transaction of any and all other business that may lawfully come before the meeting. The management has no intention of submitting any matter to the meeting other than the proposed amendment to the Charter of the Corporation and does not know of any other matter that may be presented. However, should any other matter be presented to the meeting for action, only holders of Common Stock would have the right to vote thereon, and it is the intention of the persons named in the form of proxy for Common Stock used in this solicitation to vote such proxy thereon in accordance with their best judgment.

All expenses incurred in connection with this solicitation will be paid by the Corporation. Special solicitation of proxies, in certain instances, may be made personally or by telephone, by regular employees of the Corporation, and the Corporation may request some banks and brokers to solicit their customers who have a beneficial interest in the stock of the Corporation registered in the names of nominees, upon the understanding that the Corporation will reimburse such banks and brokers for their reasonable out-of-pocket expenses, including postage. It is estimated that the expenses for all such special solicitation will not exceed $2,500.

In order to minimize the work and the necessary expenditures of solicitation, it is requested that proxies be promptly signed by stockholders and returned.

HARRY RUBENOFF,
Secretary.

Dated, New York, N. Y.,
April 19, 1944.

Proposed New Article IV of Agreement and Act of Consolidation dated as of July 12, 1937

ARTICLE IV

The total number of shares of all classes which the Company shall have authority to issue is six million three hundred eighty-one thousand eight hundred ninety-two (6,381,892) of which three hundred eighteen thousand two hundred thirty-five (318,235) shares are to be Prior Preferred Stock, hereinafter called "Prior Preferred Stock," of the par value of twenty dollars ($20) each, sixty-three thousand six hundred fifty-seven (63,657) shares are to be Cumulative Five Dollar Preferred Stock, hereinafter called "Preferred Stock," without par value, and six million (6,000,000) shares are to be Common Stock of the par value of ten cents ($.10) each.

The minimum amount of capital with which the Company will commence business is one thousand dollars ($1,000).

The powers, preferences and rights in respect of the aforesaid classes of stock, and the qualifications, limitations, or restrictions thereof are as follows:

(a) The holders of shares of Prior Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors of the Company, out of any funds legally available therefor, preferential cumulative dividends in cash at the rate of one dollar and twenty-five cents ($1.25) per share per annum, and no more, payable quarterly on the first day of each February, May, August, and November and accruing from May 1, 1944, or from the dividend payment date next preceding the date of issue of such shares (or from the date of issue, if the date of issue shall be a dividend payment date), whichever shall be later, unless such shares are issued after a record date for determining stockholders entitled to dividends and prior to the date of payment of such dividends, in which case dividends on such shares shall accrue from the dividend payment date next succeeding the date of issue. Such dividends upon the Prior Preferred Stock shall be cumulative, so that if in any quarterly dividend period dividends for such period and for all previous dividend periods at the rate of one dollar and twenty-five cents ($1.25) per share per annum shall not have been declared and paid upon, or set apart for, the Prior Preferred Stock, the deficiency shall be fully paid or set apart for payment, but without interest, before any dividend or distribution shall be declared or paid upon, or set apart for, the Preferred or the Common Stock and before any Preferred or Common Stock shall be purchased or any funds shall be set apart therefor.

(b) Subject to the rights of the holders of Prior Preferred Stock and to the limitations and restrictions herein provided, the holders of Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors of the Company out of any funds legally available therefor, dividends in cash at the rate of five dollars ($5) per share per annum, and no more, payable quarterly on the first day of each February, May, August, and November, and accruing (1) in the case of all shares of Preferred Stock issued pursuant to the Plan of Reorganization hereinbefore referred to, from August 1, 1937, and (2) in the case of shares issued otherwise than pursuant to said Plan of Reorganization, from the dividend payment date next preceding the date of issue of such shares (or from the date of issue, if the date of issue shall be a dividend payment date), unless such shares are issued after a record date for determining stockholders entitled to dividends and prior to the date of payment of such dividends, in which case dividends on such shares shall accrue from the dividend payment date next succeeding the date of issue. Such dividends upon the Preferred Stock shall be cumulative, so that if in any quarterly dividend period dividends for such period and for all previous dividend periods at the rate of five dollars ($5) per share per annum shall not have been declared and paid upon, or set apart for, the Preferred Stock, the deficiency shall be fully paid or set apart for payment, but without interest, before any dividend or distribution shall be declared or paid upon, or set apart for, the Common Stock and before any Common Stock shall be purchased or funds be set apart therefor.

(c) Whenever full cumulative dividends upon the Prior Preferred Stock for the then current quarterly dividend period and for all previous quarterly dividend periods shall have been declared and paid or set apart for payment, but not otherwise, dividends may be paid on the Preferred Stock out of the then remaining funds legally available for dividends; and whenever full cumulative dividends upon the Prior Preferred and the Preferred Stock for the current quarterly dividend period and for all previous quarterly dividend periods shall have been declared and paid or set apart for payment, but not otherwise, dividends may be paid on the Common Stock out of the then remaining funds legally available for dividends.

(d) The Prior Preferred and/or the Preferred Stock at any time outstanding may at the option of

the Company be redeemed in whole or in part at any time or from time to time on not less than thirty days' notice to the holders of record of the shares of said stock to be redeemed, given by mail and by publication in such manner as may be prescribed by the By-Laws of the Company or by resolution of the Board of Directors, by the payment in cash of a redemption price equal in the case of the Prior Preferred Stock, for each share of such stock so to be redeemed, to twenty-five dollars ($25) and all accrued dividends thereon to the date fixed for redemption, whether or not earned or declared, and equal in the case of the Preferred Stock, for each share of such stock so to be redeemed, to one hundred dollars ($100) and all accrued dividends thereon to the date fixed for redemption, whether or not earned or declared. If less than all the outstanding shares of the Prior Preferred or of the Preferred Stock are to be redeemed, the redemption thereof shall be made pro rata or by lot in such manner as may be prescribed by resolution of the Board of Directors. From and after the date fixed in such notice as the date of redemption, unless default shall have been made by the Company in providing moneys for the payment of the redemption price, all dividends on the Prior Preferred and/or the Preferred Stock so called for redemption shall cease to accrue, and all rights of the holders of the Prior Preferred and/or Preferred Stock called for redemption as holders thereof, except the right to receive the redemption price thereof, shall cease and determine. At any time after the giving of any notice of redemption of all or any part of the Prior Preferred and/or the Preferred Stock as aforesaid, the Company may deposit with a bank or trust company in the Borough of Manhattan, City and State of New York, the redemption price thereof as a trust fund for the benefit of the holders of the shares of stock designated for redemption in such notice and not yet redeemed. From and after the making of any such deposit by the Company, the Prior Preferred and/or the Preferred Stock designated for redemption shall not be deemed to be outstanding for any purpose whatsoever, and the rights of the holders of such stock as stockholders of the Company shall be limited to the sole right to receive the redemption price of such stock on the date designated for the payment thereof.

(e) In the event of the dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, the holders of the Prior Preferred Stock then outstanding shall be entitled to receive out of the assets of the Company an amount equal to twenty-five dollars ($25) per share plus all accrued dividends thereon to the date of distribution of such assets, whether or not earned or declared, before any payment shall be made or any assets shall be distributed to the holders of the Preferred or of the Common Stock, and the holders of the Preferred Stock then outstanding shall be entitled to receive out of the assets of the Company an amount equal to one hundred dollars ($100) per share plus all accrued dividends thereon to the date of distribution of such assets, whether or not earned or declared, before any payment shall be made or any assets shall be distributed to the holders of the Common Stock. After the payment or setting apart for payment of said amounts to the holders of Prior Preferred and of Preferred Stock, the remaining assets of the Company shall be divided and distributed ratably to the holders of the Common Stock.

(f) The term "accrued dividends," whenever used herein in respect of shares of Prior Preferred Stock, shall mean an amount equal to one dollar and twenty-five cents ($1.25) per share per annum from the date when dividends commenced to accrue upon the shares of Prior Preferred Stock in question to the date in question, less the aggregate amount of all dividends paid upon such shares, and whenever used herein in respect of shares of Preferred Stock, shall mean an amount equal to five dollars ($5) per share per annum from the date when dividends commenced to accrue upon the shares of Preferred Stock in question to the date in question, less the aggregate amount of all dividends paid upon such shares.

(g) No holder of stock of any class or of securities or obligations convertible into stock shall be entitled, as of right to purchase or subscribe for any stock of the Company or any securities or obligations convertible into stock of the Company or any warrants, options or rights to subscribe to stock of

the Company, and such stock, securities, obligations, warrants, options or rights, whether now or hereafter authorized, may be disposed of for such consideration and to such persons, as the Board of Directors may determine, without offering them to the holders of stock or of convertible securities or obligations.

(h) So long as any of the Prior Preferred Stock shall be outstanding, the Company shall not, without the consent of the holders of two-thirds of the outstanding shares of Prior Preferred Stock, given in writing or by affirmative vote at a meeting duly called and held for the purpose and in the manner provided by the By-Laws of the Company, (1) change, alter or impair the preferences or voting rights of the Prior Preferred Stock herein contained, or (2) authorize or issue any shares, in addition to those herein authorized, of any class of stock entitled to preference or priority over, or ranking on a parity with, the Prior Preferred Stock.

(i) The holders of Common Stock are entitled to one vote for each share of Common Stock held by them respectively. Except as otherwise specifically provided in this Article IV or as otherwise provided by law, the entire voting power for the election of Directors of the Company and for all other purposes shall be vested exclusively in the holders of Common Stock and the holders of Prior Preferred or Preferred Stock shall have no voting power with respect to the election of Directors of the Company or otherwise. If at any time, however, dividends on the Prior Preferred Stock amounting in the aggregate to one dollar and eighty-seven and one-half cents ($1.87½) per share shall be in arrears, whether or not earned, the holders of Prior Preferred Stock shall be entitled, at each meeting of stockholders thereafter held for the election of Directors, to vote separately as a class to elect two members of the Board of Directors of the Company (the remaining members of the Board of Directors to be elected by the holders of Common Stock voting as a class) and such right of the holders of Prior Preferred Stock shall continue until such time as all arrears of dividends on the Prior Preferred Stock shall have been paid and full dividends on the Prior Preferred Stock for the then current quarterly dividend period shall have been declared and paid or set apart for payment. If and when all arrears of dividends on the Prior Preferred Stock shall have been paid and the full dividends thereon for the then current quarterly dividend period shall have been declared and paid or set apart for payment, the voting power for the election of all Directors shall again be vested exclusively in the holders of Common Stock and the right of the holders of Prior Preferred Stock voting separately as a class to elect two members of the Board of Directors shall cease and determine. At all meetings of stockholders held for the purpose of electing Directors at which the holders of Prior Preferred Stock shall be entitled to vote separately as a class to elect two members of the Board of Directors as aforesaid, the presence in person or by proxy of the holders of a majority of the outstanding shares of Prior Preferred Stock shall be required to constitute a quorum of such class, and shall be sufficient to constitute a quorum for the election by such holders of two members of the Board of Directors, whether or not a quorum for the purpose of electing the remaining Directors shall be present in person or by proxy; and in the absence of a quorum of the holders of Prior Preferred Stock, a majority of those holders of Prior Preferred Stock who are present in person or by proxy shall have power to adjourn the election of those Directors to be elected by their class from time to time without notice other than announcement at the meeting, until the requisite amount of holders of Prior Preferred Stock shall be present in person or by proxy.

(j) Shares of Preferred Stock which at any time shall have been issued and thereafter acquired by the Corporation by redemption, purchase, exchange or otherwise, shall be retired and not reissued.

Each share of Cumulative Five Dollar Preferred Stock issued and outstanding, or issuable under and pursuant to the said Plan of Reorganization, is hereby changed into one share of Preferred Stock hereinabove described, and each share of Common Stock issued and outstanding, or issuable under and pursuant to the said Plan of Reorganization, is hereby changed into one share of Common Stock hereinabove described.

UNITED CIGAR-WHELAN AND SUBSIDIARY

(See "Notes to Consolidated

CONSOLIDATED BALANCE SHEET

Assets

CURRENT ASSETS:			
Cash in banks, in transit and on hand		$2,666,915.14	
Accounts receivable, less reserve of $17,819.44		773,828.53	
Merchandise inventories at cost or market whichever is lower		9,608,780.90	
Merchandise inventories with agents		529,925.00	
Total current assets			$13,579,449.57
CASH DEPOSITED WITH SINKING FUND TRUSTEE FOR RETIREMENT OF BONDS			11,379.32
MISCELLANEOUS SECURITY INVESTMENTS AND MORTGAGES RECEIVABLE, at or below cost			175,275.76
FIXED ASSETS:			
Real estate, at cost	$ 750,224.91		
Less—Reserves for depreciation of buildings	16,270.83	$ 733,954.08	
Furniture, fixtures and equipment (Note B)	$4,025,669.67		
Less—Reserves for depreciation	2,571,510.86	1,454,158.81	
Improvements to leaseholds, less amortization		865,535.33	
Construction in progress		11,060.73	
			3,064,708.95
DEFERRED CHARGES:			
Unexpired insurance premiums		$ 62,141.00	
Prepaid rent and lease deposits		51,459.44	
Prepaid taxes and licenses		133,486.29	
Supplies		165,925.04	
Miscellaneous		32,874.52	
			445,886.29
			$17,276,699.89

STORES CORPORATION
COMPANIES

Financial Statements")

DECEMBER 31, 1943

Liabilities

CURRENT LIABILITIES:		
Accounts payable	$3,098,941.32	
Dividends payable on preferred stock	81,840.00	
Taxes accrued and withheld	611,201.01	
Accrued compensation	361,621.79	
Other current and accrued liabilities	551,262.68	
Provision for estimated Federal taxes on income	1,178,724.50	
Total current liabilities		$ 5,883,591.30
RESERVE FOR CONTINGENCIES		400,000.00
FUNDED AND MORTGAGE DEBT:		
Five Per Cent Sinking Fund Bonds, due October 1, 1952 (Note C):		
Issued, less retired	$2,449,600.00	
Less—In treasury	153,500.00	$2,296,100.00
Real estate mortgage, $10,000 due in 1945 and balance due April 1, 1946	465,000.00	
		2,761,100.00
CAPITAL STOCK AND SURPLUS:		
Cumulative Five Dollar Preferred Stock:		
Authorized—67,000 shares without par value (entitled on dissolution or liquidation to, and redeemable at $100 per share and accumulated dividends)		
Outstanding—63,647 shares (excluding 10 shares held in treasury) at stated value of $75 per share (Note D)	$4,773,525.00	
Common stock:		
Authorized—6,000,000 shares of ten cents (10¢) par value		
Outstanding—5,709,716 shares (excluding 12,208 shares held in treasury)	570,971.60	
Capital surplus	317,413.35	
Earned surplus since July 1, 1939 (Note D)	2,570,098.64	
		8,232,008.59
		$17,276,699.89

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

Consolidated Statements of Profit and Loss and Surplus For the Three Years Ended December 31, 1943

(See "Notes to Consolidated Financial Statements")

PROFIT AND LOSS

Store and agency operations:	*Year 1941*	*Year 1942*	*Year 1943*
Net sales after deducting stamp and sales taxes	$50,026,272.69	$57,196,602.11	$64,229,721.92
Cost of sales	38,119,979.27	42,292,785.18	46,753,650.17
	$11,906,293.42	$14,903,816.93	$17,476,071.75
Display advertising, sundry commissions, etc.	1,501,346.26	1,437,156.39	1,489,980.29
Gross profit and other store operating income	$13,407,639.68	$16,340,973.32	$18,966,052.04
Store, depot and agency operating and general expenses	12,806,214.33*	14,291,617.65*	15,978,554.57
Profit from store and agency operations	$ 601,425.35	$ 2,049,355.67	$ 2,987,497.47
Profit or (loss) from real estate operations	(31,094.27)*	30,614.38*	68,703.26
Other income	46,656.57	48,863.84	54,498.13
	$ 616,987.65	$ 2,128,833.89	$ 3,110,698.86
Interest and other charges:			
Interest on Five Per Cent Sinking Fund Bonds	$ 118,345.77	$ 116,295.00	$ 115,008.29
Loss on sales of real estate		91,968.47	26,807.30
Charges for lease cancellations and write-offs of unamortized improvements to certain leaseholds, etc.	3,490.00	110,533.68	21,397.00
Loss on disposition of furniture, fixtures and equipment	11,263.57	33,886.05	15,642.27
Miscellaneous charges	53,035.58	99,004.57	96,672.96
	$ 186,134.92	$ 451,687.77	$ 275,527.82
	$ 430,852.73	$ 1,677,146.12	$ 2,835,171.04
Provision for estimated taxes on income (Note E):			
Federal normal income tax and surtax	$ 30,000.00	$ 487,000.00	$ 1,050,000.00
Federal excess profits taxes of subsidiary companies less post-war credit of $6,000			54,000.00
State income taxes	216.61	15,000.00	20,000.00
	$ 30,216.61	$ 502,000.00	$ 1,124,000.00
	$ 400,636.12	$ 1,175,146.12	$ 1,711,171.04
Provision for contingencies (Note E)		100,000.00	300,000.00
Profit transferred to earned surplus	$ 400,636.12	$ 1,075,146.12	$ 1,411,171.04

EARNED SURPLUS SINCE JULY 1, 1939

Balance at beginning of year	$ 122,141.43	$ 559,884.48	$ 1,635,030.60
Add:			
Net profit for the year	400,636.12	1,075,146.12	1,411,171.04
Profit on sale of mortgage receivable	8,333.18		
Profit on the Corporation's Five Per Cent Sinking Fund Bonds purchased or retired during the year	28,773.75		1,249.50
	$ 559,884.48	$ 1,635,030.60	$ 3,047,451.14
Deduct—Dividends on preferred stock, $7.50 per share			477,352.50
Balance at end of year (Note D)	$ 559,884.48	$ 1,635,030.60	$ 2,570,098.64

CAPITAL SURPLUS

Balance at the beginning and end of the year (no changes)	$ 317,413.35	$ 317,413.35	$ 317,413.35

* *Reclassified for comparative purposes.*

Supplementary profit and loss information is furnished on page 17.

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

Consolidated Statement of Supplementary Profit and Loss Information

For the Three Years Ended December 31, 1943

	Year 1941	*Year 1942*	*Year 1943*
Maintenance and repairs	$ 125,962.14	$ 129,524.26	$ 161,838.76
Depreciation, amortization and charges in lieu thereof:			
Depreciation	202,538.08	216,525.16	195,914.22
Amortization	197,905.62	221,253.89	219,115.03
	$ 400,443.70	$ 437,779.05	$ 415,029.25
Additions to furniture, fixtures and equipment in and leasehold improvements to certain cigar stores, not capitalized	12,153.28	22,150.86	33,630.38
	$ 412,596.98	$ 459,929.91	$ 448,659.63
Taxes, other than income and excess profits taxes:			
Social security taxes	$ 242,883.41	$ 270,267.28	$ 297,058.56
Real estate taxes	153,792.98	145,493.05	123,749.15
Licenses, permits and property taxes	123,289.07	114,771.69	122,262.17
State, local and capital stock taxes	69,001.85	96,523.23	115,435.08
	$ 588,967.31	$ 627,055.25	$ 658,504.96
Management and service contract fees	None	None	None
Rents and royalties:			
Rents (Note 2)	3,751,390.29	3,736,190.18	3,727,352.29
Royalties	None	None	None

NOTES:

1—During the three years ended December 31, 1943 all amounts in respect of the above items were charged directly to profit and loss accounts other than Cost of Sales.

2—The rent amounts shown above represent the total rent expense reflected on the companies' books and include the following amounts charged to store operations and credited to real estate operations:

1941	*1942*	*1943*
$475,680.11	$474,528.85	$461,286.69

The aggregate annual rentals on real property now leased to the corporation and its subsidiary companies under 152 leases expiring after December 31, 1946 is $1,298,086.89.

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

NOTE A—*Principles of Consolidation:*

The consolidated accounts include the accounts of United Cigar-Whelan Stores Corporation and all of its subsidiary companies.

The Corporation's equity in the net assets of subsidiary companies, as shown by their books, exceeded its net book investment therein by $165,882.53 as of December 31, 1943, which has been reflected as follows:

Included in consolidated capital surplus	$ 67,085.53
Included in consolidated earned surplus	98,797.00
	$165,882.53

NOTE B:

Furniture, fixtures and equipment include approximately $1,460,000 on which the reserve for depreciation is equal to the asset. Fully depreciated fixed assets are included in the accounts until removed from operation.

During the three years ended December 31, 1943, depreciation has been provided on the gross asset values, excluding fully depreciated items, at the following rates per annum:

Buildings	2% and 2½%
Furniture, fixtures and equipment	7½%
Automobiles	33⅓%
Office machines	15%

In general, improvements to leaseholds are amortized over the terms of the leases or a period of ten years, whichever is shorter.

The Corporation and its subsidiary companies follow the policy of charging to expense, as incurred, expenditures for maintenance and repairs and renewals of minor items; the costs of major renewals and betterments are charged to fixed assets, except in the case of cigar stores, exclusive of combination stores, where leases are for a period of less than two years, for which stores the costs of all renewals and betterments are charged to operations as the expenditures are made. As properties are retired or otherwise disposed of the fixed asset and related reserve accounts are relieved of the cost (or written-down book value) and accumulated depreciation thereon, respectively. The resulting profit or loss, after salvage, is transferred to profit and loss.

NOTE C:

Bonds held in the Corporation's treasury in the face amount of $153,500 at December 31, 1943 can be used for sinking fund payments required pursuant to the terms of the Indenture of Mortgage, dated April 1, 1937 covering the Five Per Cent Sinking Fund Bonds. Under the terms of the Indenture the Corporation is required to make the following sinking fund payments to the Trustee on or before April first in each of the following years:

1944	$ 93,800	1949	$119,600
1945	98,450	1950	125,550
1946	103,350	1951	131,850
1947	108,500	1952	138,650
1948	113,900		

It is provided, however, that the Corporation shall not be obligated during any of these years to pay a sum greater than one-half of the consolidated net earnings of the Corporation and its subsidiaries for the next preceding calendar year, as determined by Article III of the Indenture. If on any sinking fund payment date the Corporation, because of insufficient consolidated net earnings for the next preceding calendar year, shall fail to pay the full amount of the sinking fund payment, the deficiency, whether total or partial, shall accumulate (without interest) until paid, and thereafter on each sinking fund payment date following a calendar year in which there shall be consolidated net earnings there shall be payable to the Trustee, to the extent that one-half of such consolidated net earnings for such preceding calendar year shall suffice therefor, the amount hereinabove specified as payable on said date and the accumulated deficiencies in the payment of all amounts specified to be payable on previous sinking fund payment dates.

NOTE D:

Cumulative dividends not accrued on the books or declared to December 31, 1943 amounted to $1,564,655.42 or $24.58⅓ per share.

At December 31, 1943 the difference between the involuntary liquidating value of $6,364,700, excluding accumulated dividends, of the Cumulative Five Dollar Preferred Stock and the stated value of such stock amounted to $1,591,175.

In the opinion of counsel for the Corporation the right to the difference between the stated value of the preferred stock and such liquidation preference is not a restriction upon the distribution of surplus as dividends. However, under the Corporation's Charter no dividends may be declared, paid or set apart for payment upon the common stock, until dividend arrears on the preferred stock have been declared and paid or set apart for payment. Further reference is made to the Corporation's Indenture of Mortgage securing its Five Per Cent Sinking Fund Bonds under the provisions of which, among other things, it is provided that the Corporation may not pay or declare any dividend or make any other distribution in respect of any shares of its stock of any class (other than stock dividends) or apply, or permit any subsidiary to apply, any sum to the purchase or redemption of any shares of any class of stock of the Corporation, except out of consolidated net earnings of the Corporation and its subsidiaries (as consolidated net earnings are defined in said Indenture) subsequent to January 1, 1937. Due to this restriction it is estimated that approximately $733,000 of the earned surplus (which at December 31, 1943 amounted to $2,570,098.64 and which was accumulated since July 1, 1939) may not be used in the payment of dividends so long as any of the Corporation's bonds are outstanding.

NOTE E:

The provisions for Federal normal income tax and surtax are based on estimated taxable net income. In the opinion of Management, the parent Corporation has no liability for Federal excess profits taxes, and (except for a net provision of $54,000 for subsidiary companies in 1943) the reserve for taxes reflects no liability for such taxes. However, in view of the uncertainties and complexities of the tax laws, the Corporation considers it a conservative policy to make a provision of $300,000 for contingencies in 1943.

PRICE, WATERHOUSE & CO.

56 Pine Street,
New York, April 3, 1944.

To the Board of Directors of
UNITED CIGAR-WHELAN STORES CORPORATION

We have examined the consolidated balance sheet of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1943 and the related consolidated statements of profit and loss and surplus and supplementary profit and loss information for the three years then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus and supplementary profit and loss information, with the notes thereto, present fairly the position of the company and its subsidiary companies at December 31, 1943, and the results of their operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period under review.

PRICE, WATERHOUSE & CO.

Home Office

215 Fourth Avenue — New York 3, N. Y.

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Warehouses

Bush Terminal — Brooklyn, N. Y.

701 Bryant Street — San Francisco, Calif.

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